

McRAE INDUSTRIES, INC.

REPORTS EARNINGS FOR THE FIRST QUARTER OF FISCAL 2017

Mount Gilead, N.C. – December 14, 2016. McRae Industries, Inc. (Pink Sheets: MCRAA and MCRAB) reported consolidated net revenues for the first quarter of fiscal 2017 of \$29,872,000 as compared to \$31,730,000 for the first quarter of fiscal 2016. Net earnings for the first quarter of fiscal 2017 amounted to \$1,527,000, or \$0.74 per diluted Class A common share as compared to \$1,995,000, or \$0.93 per diluted Class A common share, for the first quarter of fiscal 2016.

FIRST QUARTER FISCAL 2017 COMPARED TO FIRST QUARTER FISCAL 2016

Consolidated net revenues totaled \$29.9 million for the first quarter of fiscal 2017 as compared to \$31.7 million for the first quarter of fiscal 2016. Sales related to our western/lifestyle boot products for the first quarter of fiscal 2017 totaled \$14.5 million as compared to \$18.4 million for the first quarter of fiscal 2016. As seen in the previous quarter, this 21% decrease was primarily attributable to the decrease in sales for higher priced ladies fashion boots and premium kid's boots. Revenues from our work boot products grew approximately 16%, from \$13.3 million for the first quarter of fiscal 2016 to \$15.4 million for the first quarter of fiscal 2017, as increases in revenue of military boots related to our multiple government contracts more than offset decreases in our commercial work boot sales.

Consolidated gross profit for the first quarter of fiscal 2017 amounted to approximately \$7.4 million as compared to \$8.7 million for the first quarter of fiscal 2016. Gross profit as a percentage of net revenues was down from 27.3% for the first quarter of fiscal 2016 to 24.7% for the first quarter of fiscal 2017. This is attributable to the sales mix being more heavily weighted towards lower margin military boots, as well as an increase of approximately 42% in healthcare costs.

Consolidated selling, general and administrative ("SG&A") expenses totaled approximately \$5.0 million for the first quarter of fiscal 2017 as compared to \$5.5 million for the first quarter of fiscal 2016. This decrease in SG&A expenses resulted primarily from decreased expenditures for advertising, commissions and office expenses. As a percentage of net revenues, SG&A expenses remained relatively constant at 16.6% for the first quarter of fiscal 2017 as compared to 17.2% for the first quarter of fiscal 2016.

As a result of the above, the consolidated operating profit for the first quarter of fiscal 2017 amounted to \$2.4 million as compared to \$3.2 million for the first quarter of fiscal 2016.

Financial Condition and Liquidity

Our financial condition remained strong at October 29, 2016 as cash and cash equivalents totaled \$16.6 million as compared to \$15.7 million at July 30, 2016. Our working capital increased from \$50.5 million at July 30, 2016 to \$51.8 million at October 29, 2016.

We currently have two lines of credit totaling \$6.75 million, all of which were fully available at October 29, 2016. One credit line totaling \$1.75 million (which is restricted to one hundred percent of the outstanding receivables due from the Government) expires in January 2017. Our \$5.0 million line of credit, which also expires in January 2017, is secured by the inventory and accounts receivable of our Dan Post Boot Company subsidiary.

Net cash provided by operating activities for the first quarter of fiscal 2017 amounted to \$1,475,000. Net earnings, as adjusted for depreciation, contributed approximately \$1.8 million of cash. Accounts and notes receivable used approximately \$2.7 million of cash as first quarter sales outpaced customer payments. Both of our boot businesses provided approximately \$3.0 million of cash as efforts to reduce inventory levels paid off. The timing of payments for accounts payable, employee benefits, and income taxes used approximately \$0.6 million of cash.

Net cash used by investing activities totaled approximately \$206,000, primarily for manufacturing machinery and equipment.

Net cash used in financing activities totaled \$314,000, which was used for dividend payments.

We believe that our current cash and cash equivalents, cash generated from operations, and available credit lines will be sufficient to meet our capital requirements for the remainder of fiscal 2017.

FORWARD-LOOKING STATEMENTS

This press release includes certain forward-looking statements. Important factors that could cause actual results or events to differ materially from those projected, estimated, assumed or anticipated in any such forward-looking statements include: the effect of competitive products and pricing, risks unique to selling goods to the Government (including variation in the Government's requirements for our products and the Government's ability to terminate its contracts with vendors), changes in fashion cycles and trends in the western boot business, loss of key customers, acquisitions, supply interruptions, additional financing requirements, our expectations about future Government orders for military boots, loss of key management personnel, our ability to successfully develop new products and services, and the effect of general economic conditions in our markets.

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McRae Industries, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	<u>October 29, 2016</u>	<u>July 30, 2016</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$16,628	\$15,673
Short term securities	503	501
Accounts and notes receivable, net	15,439	12,708
Inventories, net	24,919	27,944
Income tax receivable	0	897
Prepaid expenses and other current assets	<u>526</u>	<u>433</u>
Total current assets	<u>58,015</u>	<u>58,156</u>
Property and equipment, net	<u>7,940</u>	<u>8,147</u>
Other assets:		
Deposits	14	14
Long term securities	3,600	3,520
Real estate held for investment	3,640	3,602
Amounts due from split-dollar life insurance	2,288	2,288
Trademarks	<u>2,824</u>	<u>2,824</u>
Total other assets	<u>12,366</u>	<u>12,248</u>
Total assets	<u><u>\$78,321</u></u>	<u><u>\$78,551</u></u>

McRae Industries, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	<u>October 29, 2016</u>	<u>July 30, 2016</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$3,059	\$4,696
Accrued employee benefits	1,471	1,090
Accrued payroll and payroll taxes	896	1,207
Other	<u>809</u>	<u>698</u>
Total current liabilities	<u>6,235</u>	<u>7,691</u>
Shareholders' equity:		
Common Stock:		
Class A, \$1 par value; authorized 5,000,000 shares issued and outstanding, 2,030,658 and 2,039,822 shares, respectively	2,031	2,031
Class B, \$1 par value; authorized 2,500,000 shares; issued and outstanding, 387,629 and 390,003 shares, respectively	388	388
Unrealized losses on investments, net of tax	(63)	(59)
Retained earnings	<u>69,730</u>	<u>68,500</u>
Total shareholders' equity	<u>72,086</u>	<u>70,860</u>
Total liabilities and shareholders' equity	<u><u>\$78,321</u></u>	<u><u>\$78,551</u></u>

McRae Industries, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share data)
(Unaudited)

	Three Months Ended	
	October 29, 2016	October 31, 2015
Net revenues	\$29,872	\$31,730
Cost of revenues	<u>22,504</u>	<u>23,072</u>
Gross profit	7,368	8,658
Selling, general and administrative expenses	<u>4,963</u>	<u>5,456</u>
Operating profit	2,405	3,202
Other income	<u>94</u>	<u>89</u>
Earnings before income taxes	2,499	3,291
Provision for income taxes	<u>972</u>	<u>1,296</u>
Net earnings	<u><u>\$1,527</u></u>	<u><u>\$1,995</u></u>
Earnings per common share:		
Earnings per common share:		
Basic earnings per share:		
Class A	\$0.88	\$1.11
Class B	0.13	0.13
Diluted earnings per share:		
Class A	0.74	0.93
Class B	NA	NA
Weighted average number of common shares outstanding:		
Class A	2,030,658	2,039,346
Class B	<u>387,629</u>	<u>391,071</u>
Total	<u><u>2,418,287</u></u>	<u><u>2,430,417</u></u>

McRae Industries, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended	
	October 29, 2016	October 31, 2015
Net cash provided by operating activities	1,475	(2,483)
Cash Flows from Investing Activities:		
Purchase of land for investment	(21)	0
Capital expenditures	(100)	(589)
Purchase of securities	(85)	0
Net cash used in investing activities	(206)	(589)
Cash Flows from Financing Activities:		
Purchase of common stock	0	(22)
Dividends paid	(314)	(316)
Net cash used in financing activities	(314)	(338)
Net (Decrease) Increase in Cash and Cash equivalents	955	(3,410)
Cash and Cash Equivalents at Beginning of Year	15,673	15,437
Cash and Cash Equivalents at End of Year	\$16,628	\$12,027